

Attachment

THE WHITE HOUSE
WASHINGTON

November 5, 1981

MEMORANDUM FOR: Secretary of Defense
Secretary of the Treasury
Secretary of Agriculture
Secretary of Commerce
Secretary of Health and Human Services
Secretary of Housing and Urban Development
Secretary of Transportation
Administrator, Small Business Administration
President, Export-Import Bank of the United States

SUBJECT: Reductions in 1982 New Commitments
for Federal Loan Guarantees

Federal budget policies are having a serious adverse impact on the nation's credit markets because of the virtual explosion in recent years of Federal and federally-assisted borrowing.

For example, in the fiscal year just ended, the Federal government borrowed \$78.8 billion to finance its on and off-budget deficits and stimulated an additional \$48.0 billion in borrowing for loan guarantees and \$27.7 billion for government sponsored enterprises. In sum, funds raised under Federal auspices in 1981 absorbed 43 percent of the capital raised in the nonfinancial sector of the U.S. credit markets.

This direct government and government assisted borrowing has contributed to record interest rates, disorder in financial markets, and inadequate economic growth. The escalation of interest rates in recent years has made it impossible for many families to buy homes and has discouraged investment by business and industry.

At my request, the Cabinet Council on Economic Affairs has completed a thorough review of Federal loan guarantee programs and has recommended that action be taken immediately to reduce unnecessary credit demands. After reviewing the Council's recommendations, I have concluded that reductions in new commitments should be made in the programs and in the amounts listed in the attachment to this memorandum.

Accordingly, I am asking each of you to prepare and submit to the Director of the Office of Management and Budget within 15 days a specific plan for achieving the reductions identified

for the programs listed for your department or agency. You should consider all matters within your discretion for achieving the reduction, including changes in credit standards and loan criteria. To hasten the implementation of this policy, administrative action would be preferred wherever possible. In the event you conclude that the reductions cannot be achieved administratively, you should submit draft legislation that you believe necessary to achieve the reduction.

Ronald Reagan

Attachment :

**REDUCTIONS IN 1982 NEW COMMITMENTS FOR LOAN GUARANTEES
(in billions of dollars)**

<u>Department or Agency and Program</u>	<u>Previously Planned 1982 Level</u>	<u>Reduction to be Achieved</u>
Department of Agriculture		
- Rural Electrification and Telephone Revolving Fund	\$ 5.20	\$ 1.00
- Farmers Home Administration	13.40	.30
Department of Commerce		
- NOAA Fishing vessel financing	.08	.02
- Trade adjustment assistance	.04	.01
Department of Defense		
- Defense Production Guarantees	.03	.03
Department of Housing and Urban Development		
- GNMA Mortgage backed-securities	64.00	16.00
- Section 108 community development	.25	.25
Department of Health and Human Services		
- Health Professions guaranteed student loans	.10	.02
Department of Transportation		
- Maritime Administration Federal Ship Financing Fund	.90	.22
- Section 511 rail rehabilitation	.27	.14
- FAA Aircraft Purchase loan guarantees	.10	.05
Department of Treasury		
- Biomass energy development	.05	.05
Small Business Administration		
- Business Loan and Investment Fund, Surety Guarantees and Pollution Control Equipment Contract Revolving Fund	5.00	1.00
Export-Import Bank		
- Guarantees and Insurance	8.20	1.20
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		<u>\$20.29</u>